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C O N F I D E N T I A L SECTION 01 OF 02 SAN JOSE 002909

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SUBJECT: PRESIDENTIAL CANDIDATE OSCAR ARIAS CONFIDENT OF VICTORY; OPEN TO COOPERATION WITH U.S.

REF: SAN JOSE 2279

Classified By: Ambassador Mark Langdale for reasons 1.4(b) and (d)

Summary

1. (C) Presidential candidate Oscar Arias told Ambassador that he (Arias) was "an idiot" to run again for president but that he was under a lot of pressure to come back. Arias said that Costa Rica, which has been neglecting education, infrastructure, and economic development, "cannot afford to waste any more time" and needs leadership. He expected to win the election in the first round of voting (with more than 40 percent) on February 5 and for his party to win a large plurality, if not majority, in the legislature. Ambassador suggested that he and Arias explore the possibility after the election of a domestic security strategic planning workshop organized by the Center for Hemispheric Defense Studies. Arias responded that such a workshop could be "a good idea." End summary.

Election Campaign

2. (U) On December 7, Ambassador paid a courtesy call on former president (1986-90) Oscar Arias, frontrunner to be reelected president next February 5 from a field of 14 candidates. The latest poll shows Arias with 45 percent of the vote, compared with 21 percent for Otton Solis and 15 percent for Otto Guevara, his nearest rivals. Arias is running on a platform that embraces the U.S.-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) and "a gradual, selective, and regulated opening" of some state monopolies.

3. (C) Arias told Ambassador that he expected a 65-70 percent voter turnout in the election with his getting more than the requisite 40 percent of the vote to avoid a second-round runoff election. He believed that his party, the National Liberation Party (PLN), would win a sizeable plurality in the Legislative Assembly, if not a majority. Arias noted the difficulty of governing with a fragmented legislature but believed he would be more effective than President Pacheco has been in brokering agreements between parties. Arias was dismissive of his opponents in the election. He said that Solis, who is anti-CAFTA-DR, is "a populist and a fundamentalist, like the Taliban," and that Guevara, a libertarian, represents wealthy Costa Ricans who don't want to pay taxes.

Economic Views

4. (C) Arias believes that tax collection needs to be improved, but also that taxes ought to be raised from about 18 percent of GDP (including social security pensions and health care) to 21-22 percent. He said, "It's not easy to run as an advocate for higher taxes." Corporate taxes, however, should be lowered, he said. They are now 25 percent, except for "pioneer companies" (which covers most new foreign direct investment - FDI) for which the tax rate is 15 percent. Arias said Costa Rica will not be competitive with China and other countries unless the tax rate applied to FDI is lowered to 5 percent. He said that reducing corporate taxes and finding other ways to attract FDI will be a priority in his administration.

5. (C) Arias lamented the neglect of Costa Rica's infrastructure and educational system, noting that the country "cannot afford to waste any more time." He said that Costa Rica is burdened by too much bureaucracy, too much red tape, too many lawyers and too few engineers, "a legacy of the Spaniards." He said it was practically impossible to export, invest, build a house, or set up a factory, and he promised to streamline procedures and try to remove obstacles. He also said he was planning new legislation to activate public works concessions.

6. (C) Arias said that Costa Rica's reputation for high-quality public education was based on "a myth." In fact, he said, the quality is poor at all levels and that most Costa Ricans do not finish secondary school. Arias believes that Costa Ricans underspend for education at 5.5 percent of GDP, and he wants to raise the rate to 8 percent.

Regional integration and security

17. (C) Ambassador asked Arias for his assessment of regional integration and relations between Costa Rica and its neighbors Nicaragua and Panama. Arias said Costa Rica has been the odd man out in Central America because: "Politically we have a superiority complex, and economically we are isolationist. Look at our opposition to CAFTA." Then he noted that Costa Rica is not competitive with other Central American countries in certain sectors like sugar (in which the Arias family has major holdings) because sugar producers in places like Guatemala "don't pay taxes, don't pay social security, and pay wages at one seventh the level paid in Costa Rica." When the Ambassador pressed for finding ways for Costa Rica to cooperate better with its neighbors, Arias responded: "I'm for it, but the rest of the country would be reluctant."

18. (C) Arias said that these are difficult times for the hemisphere. While the Castro regime will inevitably come to an end, Hugo Chavez, who, he said, is crazy, is not going away and there is the additional prospect of left-wing regimes in Ecuador and Bolivia. He said that opposition to the Free Trade Area of the Americas (FTAA) on the part of countries like Brazil was not ideological, but protectionist. Arias added that in his presidency 20 years ago he worked on persuading fellow heads of state to commit to peace; in his upcoming presidency he will concentrate on persuading CEOs to invest in Costa Rica.

19. (C) Ambassador suggested that after the election, if Arias wins, the two of them explore the possibility of a domestic security strategic planning workshop organized by the Center for Hemispheric Defense Studies (CHDS). Ambassador noted that the CHDS had done a workshop about a year ago in Panama with some success and that it could involve NGOs as well as politicians and government officials. Arias responded that such a workshop could be "a good idea."

Biographic Information

10. (C) In the chit-chat between discussions of substantive issues, Arias mentioned that since leaving the presidency in 1990 he mainly has been lecturing and teaching, including at the John F. Kennedy School at Harvard University and at the Massachusetts Institute of Technology (MIT). "That's what Nobel laureates do," he said with a smile. He has also been raising funds for his Arias Foundation and campaigning in favor of the abolition of national armies -- successfully in Panama and Haiti and unsuccessfully in sub-Saharan Africa. Arias said standing armies for most countries are unnecessary, a waste of money, and dangerous. He said he convinced former Panamanian president Guillermo Endara to abolish the Panamanian army in exchange for Costa Rican recognition of his government at a time when no other Latin American country recognized that government. Arias joked that it was Costa Rican imperialism's finest hour. Arias regretted the lack of U.S. support for his Arms Trade Treaty proposal.

11. (C) Arias said that in recent years he was under a lot of pressure to run again for president. He said that he was "an idiot" to agree because now everyone has turned against him. He noted that the scandals resulting in the arrests of former presidents Calderon and Rodriguez have caused Costa Ricans to be angry at politicians. Arias said Costa Ricans could not have imagined the kind of corruption Calderon and Rodriguez are accused of happening in their country, and they feel "sad and annoyed."

12. (C) Arias, who is divorced, appears to be close to his grown daughter and son, both of whom will be spending the holidays with him. His daughter lives in Costa Rica and son in London where he is studying for a masters degree in applied math and economics at the London School of Economics. Arias mentioned that his son graduated summa cum laude from Harvard University.

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